

**CITY OF MANISTEE
OIL AND GAS INVESTMENT BOARD
MEETING OF APRIL 20, 2018**

There will be a meeting of the Oil and Gas Investment Board held on Friday, April 20, 2018 at 9:00 a.m. in the Second Floor Conference Room, City Hall, 70 Maple Street, Manistee, Michigan 49660.

AGENDA

I. ROLL CALL.

II. OLD BUSINESS.

- a.) Update on Aztec Producing.

III. NEW BUSINESS.

- a.) Approval of Minutes from February 20, 2018.
- b.) Investment Advisor Update and Commentary.
- c.) Discussion on City Council Desire to Use an Additional \$200,000 above the 4% Spending Rule.
- d.) Investment Advisor's Request to Change July 20 meeting to August 3, 10, or 17.
- e.) Other.

IV. PUBLIC COMMENT.

VI. ADJOURN.

- c. Jim Smith, Chair
Erin Martin Pontiac, Council Representative
Ed Bradford, Vice-Chair
Doug Parkes
Steve Brower
Thad Taylor, City Manager
George Saylor, City Attorney
Woody Uible, Investment Advisor

OIL AND GAS INVESTMENT BOARD MINUTES OF FEBRUARY 16, 2018

The City of Manistee Oil and Gas Investment Board held a regular meeting on Friday, February 16, 2018 in the Second Floor Conference Room, City Hall, 70 Maple Street, Manistee, Michigan 49660. Meeting was called to order by Chair Jim Smith at 12:00 p.m.

MEMBERS PRESENT: Jim Smith, Steve Brower, Erin Martin Pontiac, Thad Taylor

MEMBERS ABSENT: Ed Bradford, Doug Parkes

OTHERS PRESENT: None

OLD BUSINESS

Aztec Well Update – No update.

NEW BUSINESS

Minutes - Minutes from the October 20, 2017 meeting were reviewed. **MOTION** by Erin Martin Pontiac, second by Steve Brower to accept the minutes as presented. No discussion. Voice Vote – motion carried.

Investment Advisor Update and Commentary – Woody Uible and Troy Snider participated via conference call to present the Investment Update as of December 31, 2017. Discussion items:

- Market Assessment – modest inflation, low interest rates, continued economic growth.
- Leading Economic Index continues to trend higher, most indicators are positive.
- History of Market Declines.
- Fed expects to raise interest rates.
- Price earnings ratio on U.S. stocks. U.S. stocks are more expensive than average.
- Domestic vs. International performance.
- Asset Allocation.
- Risk Management – good portion of portfolio will mature within the next five years.
- Equity Sector Allocation – portfolio is widely diversified.
- Portfolio Performance – Returns are not a sustainable number.
- More opportunities on the bond side.
- Discussed market volatility – stick to target asset allocation.

Annual Spending Rule Calculation – Board discussed the spending rule calculation. The spendable amount is up slightly from last year.

- Jim Smith – Feels City Council would like to tap the spendable amounts of fund because of the lack of city revenue growth to fund street projects. He proposed taking an additional amount this year to be dedicated to streets.
- Erin Martin Pontiac – Agrees, more money is needed for streets.

- Thad Taylor – The Oil and Gas Investment Board could make a recommendation to Council. His opinion is the fund is operated like an endowment. If you take more funds out, the portfolio will lose ability to generate more funds in the future.
- Steve Brower – Agrees with Mr. Taylor. Tapping additional funds will lower the 4% spending rule in the future. Worried about future returns. Would rather err on the side of caution.
- Jim Smith – Delaying street maintenance increases expenses. Council took an additional \$85,000 out three years ago.
- Thad Taylor – Has concerns on the longevity of Aztec Producing and future royalties.
- Steve Brower – Returns will be diminished and lower the amount available in the future. This fund and board was structured in the past to garner funds for the future. Would feel more comfortable getting input from the two members not in attendance today.

MOTION by Steve Brower, second by Erin Martin Pontiac to approve the annual spending rule calculation as of December 31, 2017 for the fiscal year budget 2018-2019; using the 4% spending rule in the amount of \$391,042; pending Council budget process. Voice vote – motion carried.

Annual Review of Bylaws – **MOTION** by Steve Brower, second by Erin Martin Pontiac to accept the bylaws as presented; no changes are required. Voice vote – motion carried.

Annual Review of Member Roster – **MOTION** by Erin Martin Pontiac, second by Steve Brower to accept the member roster as amended. Voice vote – motion carried.

PUBLIC COMMENTS

None.

NEXT MEETING / ADJOURNMENT

Next regular meeting is scheduled for Friday, April 20, 2018 at 12:00 p.m. in the Second Floor Conference Room, City Hall. Following general discussion **MOTION** to adjourn by Erin Martin Pontiac, second by Steve Brower at 12:50 p.m.

DRAFT - cl

Cynthia Lokovich, CAP-OM
Executive Secretary / Recording Secretary

- c. Manistee City Council
Board Members
Thad N. Taylor, City Manager
George Saylor, City Attorney



OIL AND GAS INVESTMENT BOARD MINUTES OF OCTOBER 10, 2014

The City of Manistee Oil and Gas Investment Board held a regular meeting on Friday, October 10, 2014 in the Second Floor Conference Room, City Hall, 70 Maple Street, Manistee, Michigan 49660. Meeting was called to order by Chair Colleen Kenny at 12:00 p.m.

MEMBERS PRESENT: Colleen Kenny, Doug Parkes, Ed Bradford, Steve Brower, Catherine Zaring

MEMBERS ABSENT: Mitch Deisch

OTHERS PRESENT: None

OLD BUSINESS

None.

NEW BUSINESS

Minutes - Minutes from the August 15, 2014 meeting were reviewed. **MOTION** by Catherine Zaring, second by Doug Parkes to accept the minutes and place them on file. All in favor - motion carried.

Bartlett Letter on Sustainable Spending Policy – This letter was requested by the Ad Hoc Street Committee; brief discussion.

Board Resolution on Managing the Oil & Gas Fund as an Endowment – Finance Director Ed Bradford was requested to draft a resolution of support for the Oil and Gas Investment Board to consider; recommending that City Council maintain the consistent preservation of oil and gas funds. The draft resolution was reviewed and discussed, no changes were recommended.

MOTION by Catherine Zaring, second by Steve Brower, to authorize Colleen Kenny as Chair to sign a resolution on behalf of the Oil and Gas Investment Board supporting the management of the Oil and Gas Fund as an Endowment; and that this resolution be forwarded to the Manistee City Council. All in favor – motion carried.

Calendar Dates for 2015 – Board discussed quarterly meeting dates for 2015. Other meetings can be scheduled as necessary. Dates selected were: Friday, January 16, 2015; Friday, April 17, 2015; Friday, July 17, 2015 and Friday, October 16, 2015. Board consensus, meeting dates will be posted.

Memorandums of Understanding on Internal Loans – The City Attorney and Finance Director are working on two memorandums of understanding between the City and the Board for the internal loans. Both should be ready for the next meeting.

Investment Advisor Update and Commentary – Woody Uible presented the Investment Update as of September 30, 2014 via conference call. Information in the report includes Market Outlook, Bull Market in Context, Fed Watch, International Fixed Income, Asset Allocation, Fixed Income Characteristics, Equity Sector Allocation, and Portfolio Performance. Questions and comments by board members were responded to.

Steve Brower left the meeting at 12:20 p.m.

Discussed stock prices on energy, health care, and utilities. Discussed Bartlett's letter and the resolution adopted by the Board to manage this fund as an endowment. Mr. Uible again cautioned the Board that there could be some slip back over the next 3-6 months. Maintaining the spending rule will help buffer any impacts.

Colleen Kenny left the meeting at 12:52 p.m.

PUBLIC COMMENTS

None.

ADJOURNMENT / NEXT MEETING

Next regular meeting is scheduled for Friday, January 16, 2015 at 12 p.m. in the Second Floor Conference Room, City Hall.

Following miscellaneous discussion, **MOTION** to adjourn by Doug Parkes, second by Catherine Zaring at 1:05 p.m.

Cynthia Lokovich, CAP-OM
Recording Secretary

- c. Manistee City Council
Board Members
Mitch Deisch, City Manager
George Saylor, City Attorney

BARTLETT

OUR GOAL IS REACHING YOURS.

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RECEIVED

SEP 22 2014

CITY OF MANISTEE
CLERK-TREASURER

September 12, 2014

Mr. Edward Bradford
City of Manistee
70 Maple Street
Manistee, MI 49660

Re: Sustainable Spending Policy

A prudent level of spending for an endowment or foundation should be at a level that ensures long-term purchasing power of the distributions. Maintaining purchasing power refers to having distributions keep up with inflation, so over a long period of time the impact or benefits to the community are maintained. In order to do this, one must take the projected investment return, less the projected inflation rate to arrive at the appropriate spending level.

A survey of various investment consultants, managers and analysts would suggest that over the next ten years the total return on equity portfolios should approximate 7.0%. The corresponding ten year projected return for fixed income securities is 3.0%. A balanced portfolio invested 65% in common stocks and 35% in bonds would equate to a projected return of 5.6%. If one subtracts an anticipated inflation rate of 2% to 2.5%, then you arrive at a long-term real (after inflation) rate of return of approximately 3% to 4%, which should maintain your purchasing power if distributions are set at this level.

This concept is sometimes referred to as "generational equity." The idea is that the value of a portfolio in the future should be approximately equal in terms of purchasing power to what it is today. The research that has been done on this from respected sources is that 3% to 4% is the comfort range to maintain this generational equity. In other words, if one spends over 4% then the real value of the fund will be diminished over time. Spending under 3% would increase the real value of the fund over longer periods of time.

Sincerely,

A handwritten signature in black ink, appearing to read "Woodrow".

Woodrow H. Uible, CFA

Oil & Gas Investment Board Resolution

Managing the Oil & Gas Fund as an Endowment

WHEREAS, The City of Manistee is the recipient of Oil & Gas royalties and lease payments from City-owned property. The money derived from these payments has been set aside by City Council in a protected fund since 1979; and

WHEREAS, The Citizens of Manistee ratified Council's decision to preserve this money by approving a Charter amendment in 1992 (which passed 82% to 18%) to protect this money for future generations; and

WHEREAS, City Council has appointed an Oil & Gas Investment Board pursuant to Ordinance to manage the affairs of the Oil & Gas Fund; and

WHEREAS, City Council passed a resolution of support May 1, 2007 to pursue amending State law to change allowable investments for the Oil & Gas Fund. The State legislature passed, and the Governor signed into law, Public Act 220 of 2008 which allows the Oil & Gas Fund to be invested like a public pension fund; and

WHEREAS, The Oil & Gas Investment Board retained a professional investment advisor Bartlett Co. to manage the Oil & Gas Fund pursuant to the new law; and

WHEREAS, The Oil & Gas Investment Board and City Council have approved an Oil & Gas Investment Policy and Spending Rule which requires the Oil & Gas Fund be managed like an endowment fund; and

WHEREAS, The Oil & Gas Investment Policy and Spending Rule establishes an asset allocation and spending rule percentage that preserves the long-term purchasing power of distributions and provides for intergenerational equity for the Citizens of Manistee; now, therefore, be it

RESOLVED, That the City of Manistee Oil & Gas Investment Board supports in the strongest possible manner managing the Oil & Gas Fund like an endowment pursuant to the Oil & Gas Investment Policy and Spending Rule; and, be it further

RESOLVED, That the City of Manistee Oil & Gas Investment Board is opposed to increasing the spending rule percentage above 4% or spending any amount beyond what the Spending Rule dictates.

ATTEST:

Colleen Kenny 10/10/14
Colleen Kenny, Chair Dated

Cynthia J. Lokovich 10/10/14
Cynthia J. Lokovich, Secretary Dated

Cindy Lokovich

From: Uible, Woody H. <wuible@Bartlett1898.com>
Sent: Wednesday, April 04, 2018 8:33 AM
To: Cindy Lokovich; Cindy Lokovich

Follow Up Flag: Follow up
Flag Status: Flagged

REQUESTED: Aug 3, 10 02 17

Hi Cindy,

I was wondering if we could schedule the summer Oil and Gas meeting in August? I believe we are currently scheduled for July.
Woody

Woodrow H. Uible, CFA

Wealth Advisor | Principal

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